
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
POLICY SUBCOMMITTEE
OF THE
INVESTMENT COMMITTEE

MINUTES OF MEETING**

August 18, 2008

A meeting of the Policy Subcommittee was held on Monday, August 18, 2008, in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 5:40 p.m. and the following members were present:

Henry Jones, Chair
George Diehr, Vice Chair
Louis F. Moret
Anne Sheehan
Charles Valdes

Other Board members present:
Bill Lockyer, represented by Rosalind Brewer

The meeting recessed briefly.

AGENDA ITEM 2 – APPROVAL OF THE JUNE 2008 MEETING MINUTES

On **MOTION** by Ms. Sheehan, **SECONDED** and **CARRIED** to approve the June 16, 2008, meeting minutes as presented.

Agenda items were taken out of order to accommodate individual schedules.

POLICY REVIEW AND CONSOLIDATION PROJECT

Anne Stausboll, Interim Chief Investment Officer, reviewed the history of the Policy Review and Consolidation Project and outlined the project objectives to:

- Organize and streamline Investment Policy to improve access, clarity and transparency
- Provide a consistent Investment Policy framework
- Ensure that the policies facilitate the ongoing CalPERS compliance program

Agenda Item 5 (below) reflects the results of the review of policies within the Alternative Investment Management Program category of the Policy Manual. A phased review of all policies is ongoing and will be completed in 2008.

AGENDA ITEM 5 – Revision of Policy on Alternative Investment Management (AIM) Program

Joncarlo Mark, Senior Portfolio Manager, and Sarah Corr, Portfolio Manager, presented the revisions of the AIM Program Policy. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

Review of the AIM policies was a joint effort and included input from the General Pension Consultant, the CalPERS Legal Office, and the Enterprise Office of Compliance.

The policies reviewed were:

1. AIM Program Policy – Staff recommended one substantive policy change – that the short-term benchmark be changed to the Custom Young Fund Universe median return without making any adjustments for the weights within the AIM portfolio. This will align the policy with the benchmark used in the Performance Plans approved by the Performance and Compensation Committee. Also as part of the Policy Review Project, delegations and operational language were removed and the policy was formatted to conform to the new template.
2. Restricting AIM Investments in Public Sector Outsourcers – Staff did not recommend changes to this policy because it was developed with close input from constituent representatives, as well as the general partner community.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Alternative Investment Management (AIM) Program.

AGENDA ITEM 3 – ASSET ALLOCATION, Adoption of Policy on Affiliate Funds and Repeal of Policy on Annuitants' Healthcare Coverage Fund

Farouki Majeed, Senior Investment Officer, and Rick Roth, Senior Portfolio Manager, presented the item. Peter Mixon, General Counsel, and Andrew Junkin, Wilshire Associates, were available to respond to questions from the Subcommittee.

CalPERS' Asset Allocation/Risk Management Unit administers the asset allocation strategy and monitors the performance of the following Affiliate funds:

- Annuitants' Healthcare Coverage Fund
- Judges' Retirement System II
- Legislators' Retirement System
- Long-Term Care Fund
- Supplemental Contribution Plan Portfolio Fund

The proposed policy will provide overarching governance for the Affiliate Funds and consolidate the asset allocation strategies into one governing document. Staff recommended repealing the existing Annuitants' Healthcare Coverage Fund Policy because the text of the existing policy has been incorporated into the proposed new policy.

On **MOTION** by Ms. Sheehan, **SECONDED** and **CARRIED** to recommend to the Investment Committee adoption of the Statement of Investment Policy for the Affiliate Funds and repeal of the Statement of Investment Policy on Annuitants' Healthcare Coverage Fund.

Staff will now move forward to conduct a review of each Affiliate's asset allocation strategy to ensure the broadest investment diversification benefit. As asset allocation strategies are revised and new asset allocation strategies adopted, this Policy will be brought back for modification.

AGENDA ITEM 4 – REAL ESTATE, Revision of Policy on International Equity Real Estate

Ted Eliopoulos, Senior Investment Officer; Bob Eberhardt, Portfolio Manager; and Jane Delfendahl, Portfolio Manager, presented the item. Nori Gerardo Lietz, PCA – Real Estate Advisors, was available to respond to questions from the Subcommittee.

The 2007 Real Estate Strategic Plan recommends increasing the real estate allocation to international markets, with emphasis on increasing emerging market exposure in real estate long-term strategies. Staff presented proposed revisions to the International Equity Real Estate Policy in line with the Strategic Plan recommendations.

On **MOTION** by Ms. Sheehan, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for International Equity Real Estate, with a technical correction to the Developed Markets allocation range.

AGENDA ITEM 6 – PROPOSED 2009 MEETING DATES

Anne Stausboll, Interim Chief Investment Officer, presented the proposed 2009 meeting dates.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve the proposed 2009 meeting dates as presented, noting that it is subject to revision.

AGENDA ITEM 7 – DRAFT AGENDA FOR OCTOBER 2008

The Subcommittee accepted the proposed October 20, 2008 agenda, with the addition of the Divestment Policy and policies relevant to the Enhanced Equity Portfolio.

AGENDA ITEM 8 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at 6:00 p.m.

The next Subcommittee meeting is scheduled for October 20, 2008, at a time to be determined in San Luis Obispo, California.